

## A Transition of Leadership

More than ever, clients should expect our ongoing focus on thought leadership. For our part, we will continue to demonstrate an unwavering commitment to our practice of investment and wealth management.

With the upcoming transition to occur within Glenmede's Chief Executive Office, Al Piscopo and Gordon Fowler share their thoughts:



**A.E. Piscopo**  
President &  
Chief Executive Officer

**Q.** *How did you approach the transition process?*

**A.** During my more than thirty-seven years with Glenmede, I had the privilege to work with each of the Company's four presidents. Having observed each of their transitions, I find these periods represent a critical time for an organization. A new leader brings a vision for the company and a new level of energy.

While change is often good, it can be destabilizing and no one is insulated: the Board of Directors, shareholders, employees and business partners are challenged to re-establish their organizational relationship. This was clearly on my mind when, in 2002, I accepted the opportunity to serve as President and CEO. New to the position, my earliest efforts were to reassure all of our stakeholders that Glenmede would be considerate

of their interests while adapting to opportunity. Building from my experience, I wanted to ensure my successor became familiar with and reassured all of Glenmede's stakeholders.

**Q.** *How was a successor selected?*

**A.** First, I determined the timing of my retirement. I can share this was not an easy process. Being honest with oneself, however, is necessary in order to be honest with those who depend on you. I arranged a timetable with our Board and worked with them to delineate a schedule by which to complete the transition.

Gordon has proven he has the talent and leadership skills to guide our Firm. I have observed him in Board, Company, and client meetings, and I'm convinced all of our stakeholders are comfortable with him.

**Q.** *What were your key objectives?*

**A.** The last step in the process was to arrange time for me and Gordon to work together. I have enjoyed this immensely. We have worked to sustain strong relationships that

will endure as he takes the leading role. We have extraordinary talent throughout the Company and Glenmede is positioned to make significant progress in delivering wealth management solutions for now and the future.



**Gordon Fowler**  
Executive Vice President &  
Chief Investment Officer

**Q.** *How will this transition change your role?*

**A.** I will remain actively involved in setting the investment strategy and policy, and will retain the title of Chief Investment Officer. My ongoing oversight is possible for two reasons. First, I will continue to collaborate with two of the most knowledgeable and dedicated partners in our business. Chip Wilson, Director of Client Services, guides our client relationship, marketing and sales areas. Chip and I have been working for clients for years and speak a common vernacular. Laura Williamson,

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Chief Operating Officer, oversees the Financial, Technology and Operations functions which enable our daily business activities.

Laura and her group are, perhaps, Glenmede's unsung heroes.

Second, I have delegated the day-to-day management of the investment group to Laura LaRosa and Peter Zuleba, who respectively head our fixed income and equity divisions. These two individuals, along with Sally Wirts, Chief Administrative Officer and President of the Glenmede Mutual Funds, Ken Trippe, Head of Private Equity and Ben Alimansky, Head of the Manager Alliances Program, constitute a deeply skilled and experienced team of investment leaders.

**Q.** *What is your strategic vision for Glenmede?*

**A.** We are proud of the fact our vision is deliberately executed over a sustained period. As an independent firm, we are free of the distractions that often disrupt the long-term initiatives of publicly-traded, multi-line financial organizations. However, every CEO gets to put a mark on company strategy and my vision will evolve carefully, over time. Shortly, our management team will embark on a new five-year planning cycle when we will take the opportunity to evaluate and fine-tune our course.

**Q.** *Are there any near-term initiatives?*

**A.** At Glenmede, we value our reputation for high-quality advice and service delivered by respected practitioners. The volatility in the financial industry has shaken

loose a lot of great talent. By complementing our store of human capital, as we intend to do, we will raise our ability to serve clients.

**Q.** *What excites you about becoming CEO?*

**A.** Over the years, I have developed a strong conviction that Glenmede is a very special place for its clients, employees and shareholders. Special places, though, do not remain special if they are fixed in their ways. In our case, we want to provide superior, not just competitive, investment performance, wealth-advice and client service. Achieving this high level requires constant evolution. I am excited and honored to have this opportunity to help shape and lead the next stage of that evolution for Glenmede.



## How's your Hardwiring? The Psychology of Long-Term Investing

**Adam G. Psichos**, First Vice President, Portfolio Manager and Managing Director of Morristown  
**Robert M. Siewert**, CFA, Vice President, Relationship Manager, and Portfolio Manager

We are all struck by the speed with which markets move, and how emotional biases influence our long-range investment decisions. In the past two years, we have witnessed the largest peak-to-trough decline in the global stock market since the Great Depression. Investors have retreated, often at a loss, and re-invested, with regret.

Discovering one's tolerance for risk is arguably the most critical step in portfolio construction. In periods of extreme volatility, human nature is to react to the wide-ranging sentiment. In these moments we move with the pack, or counter to it. Avoiding consensus thinking, or herd behavior, is one

Experts in the field of behavioral economics have identified cognitive biases to explain why investors forgo logic-based assumptions for emotional tendencies:

**Prospect Theory / Loss Aversion:** The most popular theory in behavioral finance asserts that losses cause greater emotional pain than the joy experienced by an equivalent amount of profit. This leads people to be risk-averse when evaluating potential gains.

**Herd Behavior:** A tendency to adopt a view consistent with a larger group from fear of being wrong. Herd behavior contributes to extremes in market prices when asset prices become disconnected from fundamental values (both in market bubbles and crashes).

**Commitment:** Once a decision is made, the confidence in that decision, and the desire to behave consistently, increase so that fresh information is more readily dismissed. This frequently contributes to an investor's unwillingness to sell "mistakes" in the portfolio.

**Recency:** Making a decision by placing a greater weighting on recent experiences. A common pitfall in investing is the tendency to extrapolate the recent past indefinitely into the future. Investors will frequently "trend-follow" even if prospective fundamentals would argue against it.

**Anchoring:** Focusing or "anchoring" on one specific piece of information. Investors frequently anchor buy / sell decisions to a particular price level or on historical perceptions. A common form of anchoring involves buying a stock based on the degree to which the stock is selling below its all time high, believing it will regain its former glory.

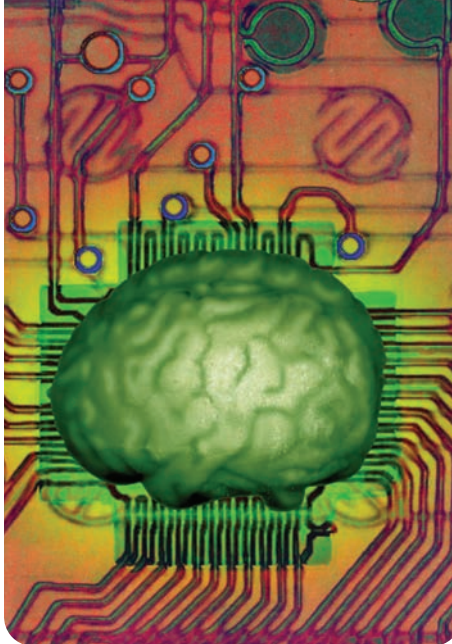
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**How's your Hardwiring?** *continued*

of the most difficult psychological tendencies to overcome. We should, as such, understand the emotional undercurrents which affect our willingness to take risk and which influence our investment decisions.

Time horizon - the length of time investors have before converting investments to cash - should most influence investment decisions. The longer the time horizon, willingness aside, one might consider increased exposure to more volatile asset-classes such as equities. Like diversification, longer time horizons help to reduce the risk of portfolio loss. As depicted in the chart, the volatility of stocks declines with longer holding periods; albeit, in the shorter-term, equities are more volatile than bonds.

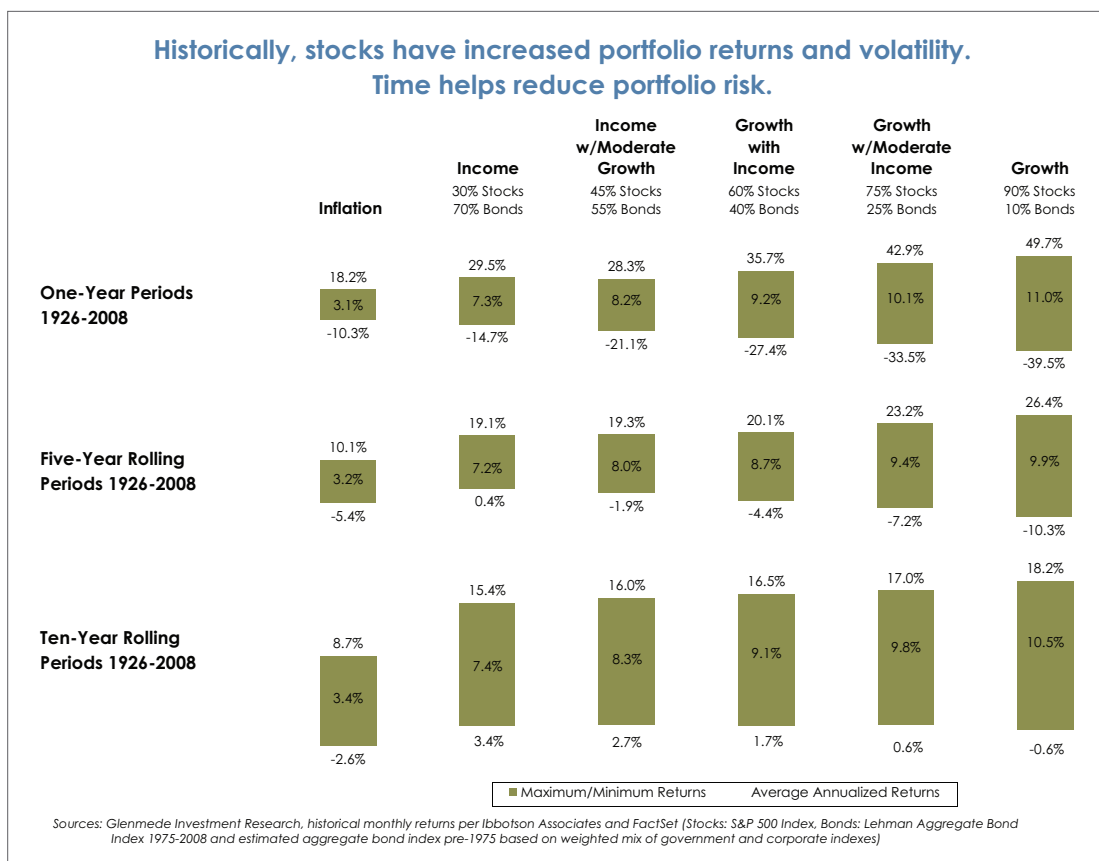
Today, society places great value on experiences that deliver instant gratification. And, innovations in communication and technology create a fluid and targeted information flow. This environment of "short-termism" can wreak havoc on our ability to make sound investment decisions. Having experienced extreme market volatility over the past year, we are reminded of the importance of focusing on long-term market fundamentals and individual goals in order to sidestep the temptations of emotionally-based decision making.



As this relates to our thinking at Glenmede, we believe the unfinished business of deleveraging will lead to more ups and downs for stocks in the months ahead. From a longer-term view, we find stocks attractive for clients with a time horizon of five

or more years; we do not, however, suggest over-allocating to equities just yet. In the short-run, we believe a balanced approach to asset allocation will provide attractive returns with less risk. We continue to support the tactical moves we recommended earlier in the year which, for the appropriate investor, advocated a shift into commodities, investment grade corporate, convertible, tax-exempt and high-yield bonds. In the end, diversification is what delivers us to the finish line.

Going forward, we anticipate more opportunities to emerge which we fully expect to evaluate for our clients. By understanding how psychological predispositions may affect the decision-making process, investors can remain focused on long-term wealth objectives.





## This Sunset May Not Be Pretty

*Lisa M. Whitcomb, Senior Vice President and Managing Director, Wealth Advisory Services*

Sharply ahead on the horizon is the sunset of many of the tax reductions and other changes implemented by the Economic Growth and Tax Relief Reconciliation Act of 2001 and its progeny. Though taxpayers have this clearly in their sights Congress, unfortunately, has yet to come to a consensus on how to move forward. The topic with the most immediacy involves estate taxes.

The tax rate was reduced, or the size of the minimum taxable estate increased every year since 2001, and now the federal tax is a flat 45% and applies only to estates in excess of \$3,500,000. If Congress

does not take further action, there will be no federal estate tax imposed on the estates of persons dying in 2010 and then, in 2011 the old 2001 tax regime will be re-imposed. Of course, this doesn't quite tell the whole story.

In order to meet the forward-looking ten-year budget restrictions of 2001, the 2001 Congress simply abdicated long-term responsibility. Today, there are no fewer than eight separate bills before Congress with more expected. However long the wrangling takes, it is likely the ultimate outcome will bring permanent changes which look much like the 2009 tax regime.

There are a number of reasons the status quo will persist. Allowing the exempted size of an estate to fall from \$3,500,000 back to the 2001 level of \$675,000 would be a dangerous affront to the middle class and might affect the 2010 Congressional elections. A permanent full repeal of estate taxes would cost too much in revenue for an administration desperate to preserve programs and minimize the deficit. Finally, preserving the 2009 estate tax structure would not deplete the ten-year revenue from estate and gift tax as much as we might expect; current revenue reduction estimates look to be about \$250-\$300 billion over 10 years (about 45% below revenue forecasts if the 2001 scheme was re-imposed).

So what other changes should we expect? There appears to be strong support for the "portability" of exemptions between spouses. That is, if the first spouse to pass does not fully use his or her \$3,500,000, which can pass free of federal estate tax, the surviving spouse may use the remainder to augment their own non-taxable estate. This would be a great improvement for taxpayers and could make redundant some of the trust planning done simply to preserve tax advantages. In addition, the gift tax may be reunified with the estate tax, enabling each taxpayer to increase the ability to make tax-free lifetime gifts from \$1,000,000 to \$3,500,000.

But the revenue to pay for all this has to come from somewhere. One of the lurking proposals that will hit high-net-worth individuals is the proposed repeal of the state inheritance tax deduction and state death tax credit. Up until 2003, the states were partial beneficiaries of the federal estate tax system and pocketed approximately 10-16% of the federal estate tax imposed on large estates under the "credit" system. This was replaced with a deduction for state taxes, requiring most states to modify their estate tax revenue statutes. Many states have been slow to do this, yielding to taxpayer pressure to eliminate the death tax at the state level.

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With an increased burden on the states to raise revenue, it is possible a large number will re-institute the state-level tax. If this becomes widespread, and if either the credit or deduction for state taxes is not re-applied, this could raise the aggregate effective rate of federal and state death taxes right back over 55%.

Lastly, though currently designated as “revenue raisers” for health care reform, the Treasury has targeted reform for certain valuation issues that arise in planning with limited partnerships and cost-basis inconsistencies that can be exploited in the estate transfer process. Treasury has

also proposed tightening down on GRATs (grantor retained annuity trusts) to minimize their use for transferring appreciation that is accumulated over the short-term to family members. The GRAT proposal would require all GRATs to have a term not less than 10 years and a retained interest in the donor of at least 10%.

Our recommendations for this fall: first, if at the time of reading this, Treasury has not successfully tightened down on GRATs, consider whether you will benefit from putting one in place immediately. Second, hold-off on making very large taxable gifts if it means paying gift tax - there

is a real possibility help may be on the way. Third, do not miss the opportunity to continue to make gifts that fall within the gift tax exclusions at a time when the market is still recovering. Assets transferred to your heirs at relatively low market values bring much more upside potential, while removing that growth from your personal taxable estate.

*The best sunsets come when dirt is in the sky. Perhaps the wrangling in Washington will kick-up enough dirt to indeed produce a beautiful sunset.*



## Did Hedge Funds Succeed or Fail in the Bear Market?

*Ben Alimansky, First Vice President, Director of Manager Alliances Program*

In the context of the economic crisis of 2008, there were many stories of disappointing returns and worse, funds which prevented investors from withdrawing their investment capital.

While these examples captured national attention, they did not reflect that many hedge fund strategies performed as designed – they preserved capital and provided liquidity. When we examine various hedge fund indices, we observe that while most hedge funds lost money in 2008, they outperformed the market. As evidenced in the chart, the preservation of capital in 2008, as well as 2000-2002, resulted in significant short and long-term market out-performance.

Consider the following statistics comparing the Hedge Fund Research, Inc. (HFRI) Weighted Composite Index to the S&P 500 over the past ten years:

So why the bad press around hedge funds? There were a handful of events in 2008, exaggerated by the credit crisis following the failure of Lehman Brothers, which

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DATA PERIOD USED (9/99 – 8/09)	HFRI FUND WEIGHTED COMPOSITE INDEX	S&P 500
<b>Annualized Return</b>	7.4%	-0.5%
<b>Annualized Volatility</b>	7.4%	16.3%
<b>Drawdown during current recession/crisis</b>	-21.4%	-50.9%*
<b>Drawdown during 2000-2002 recession</b>	-6.4%	-44.7%**

*\*Both began largest drawdown in Nov-07. Drawdown is defined as the greatest peak to trough loss over the noted time period.*

*\*\*Both began prior recession drawdown in Sept-00*

Sources: Glenmede Investment Research, FactSet and Hedge Fund Research, Inc.

impacted fund performance and behavior. First, a widespread deleveraging occurred throughout global markets. Banks, historically the providers of cheap credit to hedge funds, were forced to de-lever their balance sheets and thus, withdraw credit from borrowers.

As a result, hedge funds were required to sell securities in the open market, causing further price depreciation. This widespread behavior had a downward spiral effect on asset prices, ranging from mortgage-backed-securities to corporate bonds and global equities.

Second, investors who were already worried about a rapidly declining market became scared, and those who were able requested a return of capital. Due to the severity of the crisis, this 'run on the hedge funds' happened en-masse and forced managers to further sell securities into a falling market, worsening performance and investor access to liquidity.

This particularly affected markets such as convertible and high-yield bonds. Some managers employed a contractual clause in their partnership agreements called 'gating' which allowed them to set aside redemption requests until markets stabilized.

Finally, there were a number of frauds discovered in 2008 and early 2009. The largest and most reported was perpetrated by Bernard Madoff. It is important, in these instances, to consider that the majority of cases victimized investors who had not, unfortunately, conducted thorough and repeated due diligence on the people, processes and systems associated with these investment firms.

While it is easy to find examples of funds which either significantly underperformed or upset investors by preventing redemptions, investors are better served by asking the hard questions: can one identify strategies which perform well over the long-run and meet investor objectives through various market conditions, and how does the due diligence process work to identify these opportunities?

In Glenmede's Manager Alliances Program, it is our responsibility to offer our clients access to mutual funds, separate accounts, and hedge funds which fit with our standards and metrics. We look for managers who are true partners; those who demonstrate an alignment of interests (e.g., managers who invest personal money alongside ours)

and a transparency of investment process and business operations. We partner with tenured investment leaders with a proven record of investing in a variety of economic environments and we like strategies which are both intuitive and easy to understand and explain.

Additionally, we perform operational due diligence alongside investment strategy research. This continues throughout the relationship as we routinely monitor funds to ensure an ongoing consistency in performance and ideology. Integrity and reputation are also critical; we leverage reference checks and spend time with managers to understand their philosophy and thought process.

In 2010, our Manager Alliances Program will increase the number of alternative investment options available to clients. Our further orientation to this asset-class will be steady and measured, with a keen eye on identifying managers who share our commitment to strategic investing and risk-management.

## Still Thinking Green

In our continuing campaign to expand email distribution of our newsletters, if you would like to receive Perspectives electronically, please email your request to [mailbox@glenmede.com](mailto:mailbox@glenmede.com).

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